

SPEC BUY

Current Price \$0.43
Valuation \$0.70

Ticker: GOR
Sector: Materials

Shares on Issue (m): 595.1
Market Cap (\$m): 255.9
Cash Estimate (\$m): 18.9
Enterprise Value (\$m): 237.0

52 wk High/Low: \$0.44 \$0.15
12m Av Daily Vol (m): 1.59

Mineral Inventory (100% basis)

	Mt	g/t	Moz
Reserves	-	-	-
Resources	123.2	1.3	5.1

EV / Reserve \$/oz -
EV / Resource 46

Directors:

Ian Murray	Executive Chairman
Justin Osborne	Executive Director
Russell Davis	Non-Executive Director
Martin Pyle	Non-Executive Director
Kevin Hart	Company Secretary

Substantial Shareholders:

Van Eck	8.3%
Platypus	5.3%
RCF	5.2%

Share Price Graph



Wednesday, 20 May 2015

Gold Road Resources

Better with cheese

Analysts | Patrick Chang, CFA | Matthew Keane

Quick Read

Argonaut's site visit to Gold Road's (GOR) Gruyere Project confirmed the Company is on track to deliver an enhanced Pre-Feasibility (PFS, Phase I). As highlighted in the Scoping Study, the project has the potential to support a >7.5Mtpa operation. With significant drilling completed at Gruyere and deposit remaining open, the upcoming Resource update is likely supportive of an upsized operation, resulting in enhanced overall project economics. Recent corporate activity in the gold sector reinforces Argonaut's view that quality Australian assets are highly sought after. Gruyere's scale, geometry, long life, and favourable metallurgical properties combined with a low sovereign risk jurisdiction, will ensure the asset attracts market and corporate attention. The asset would suit a number of gold producers, including Independence Group (IGO, SELL, Valuation \$4.65) or Regis (RRL, HOLD, valuation A\$1.40). Our scenario analysis demonstrates a potential acquisition appears accretive on several fronts (see Page 4). Argonaut's valuation increases to A\$0.70 (was A\$0.60) after factoring in a ~270koz pa operation. SPECULATIVE BUY recommendation maintained.

Event & Impact | Positive

Upcoming PFS: The upcoming PFS could feature an upsized case. Potential metrics include (Argonaut estimates):

- A ~7.5Mtpa, low complexity open pit / CIL operation with contract mining
- Significant scale and life, ~270kozpa with ~10 years LOM
- Favourable geometry (strip ratio of ~2:1 at a head grade of 1.2g/t)
- High recovery of 93% gold using CIL at a grind size of 106µm
- AISC of ~A\$1,070/oz and pre-production capex of ~A\$500m (including future study and drilling costs)

Stacking up: A modest Resource grade of 1.2g/t at Gruyere is enhanced by a low strip ratio (~2:1), the scale of the operation, concentration of ounces (single pit), consistency of the mineralisation (minimal grade control), excellent metallurgy as well as genuine 'blue-sky' exploration upside in Western Australia. The deposit compares competitively against peer assets (see Page 5, Figure 3).

High intensity regional exploration program underway: The Company is well funded (A\$19m at 31st March) and newsflow rich with a high intensity exploration program underway. Targets to be tested in CY15 include; Dorothy Hills (Monteith), Sun River – Wanderrie, Pacific Dunes – Corkwood and the southern Yamarna JV targets including Smokebush and Beefwood.

Recommendation

SPECULATIVE BUY maintained with a revised valuation of A\$0.70 (was A\$0.60).

Valuation

Argonaut's updated valuation on GOR is A\$0.70...

Argonaut's valuation on GOR is A\$0.70, with key assumptions stated in Table 1 below.

Table 1: Valuation summary and key project assumptions

Valuation Summary	A\$m	A\$/sh
Gruyere	658.2	0.59
Unmined Resources	22.2	0.02
Yamarna Exploration	100.0	0.09
Corporate	-22.1	-0.02
Cash Estimate	18.9	0.02
Debt	0.0	0.00
Total @7.7% discount rate	777.2	0.70

...with a valuation of A\$658m on Gruyere...

Key project assumptions		
Gruyere		
Ownership	%	100
Ore milled	Mtpa	7.5
Head grade	Au g/t	1.2
Recovery	%	93
Production	koz Eq pa	274
Mine Life	yrs	10.0
Strip ratio	:	2.0
"All-in" sustaining cost	A\$/oz	1070
Pre-production Capex	A\$m	500
Sustaining Capex	A\$m pa	20
Long term Pricing		
Gold price	US\$/oz	1300
Exchange rate	:	0.80
Fiscal		
Government royalty	%	2.5
Tax Rate	%	30
Discount Rate	%	8
Debt / Equity	:	60/40

...conservative capex of A\$500m (including future study / drilling costs)

Source: Argonaut

...a long term gold price of US\$1300/oz and AUDUSD of 0.80

The current drilling campaign at Gruyere is likely to support a larger operation. Argonaut has made revisions to its forecast to reflect this. We are conservatively modelling an AISC of A\$1,070/oz and a pre-production capex of A\$500m (inclusive of future drilling and study expenditures) for a 7.5Mtpa operation as the base case, producing ~270koz pa.

Given the prospective geology and GOR's dominant land position in the Yamarna Belt, Argonaut retains an A\$100m valuation on the exploration upside. We recognise the Yamarna Greenstone Belt as one of the few remaining frontiers in Australia where multi-million ounce discoveries are possible through the follow up of shallow, reconnaissance drilling.

Exploration upside at Yamarna valued at A\$100m

Unmined Resource ounces were given a nominal valuation of ~A\$10/oz.

Corporate appeal

Gruyere’s scale, geometry, life and exploration upside...

Gruyere’s potential scale, geometry, long life, and favourable metallurgical properties combined with a low sovereign risk jurisdiction, will ensure continued corporate attention. GOR announced on May 14 that IGO had become a shareholder via on market purchase, reinforcing Argonaut’s view that quality Australian assets, like Gruyere, are rare and in demand. GOR is trading on an EV / Resource of A\$46/oz.

Table 2: Recent WA transactions

Date	Target	Acquirer	Valuation	Premium	Asset Location	EV / Resource	EV / Reserve
			(\$m)	%		\$/oz	\$/oz
Development projects							
Apr-14	Bullabulling (BAB)	Norton (NGF)	24	30	Western Australia	5	-
Jan-14	Norilsk (Thunderbox)	Saracen (SAR)	23	-	Western Australia	11	32
Oct-14	Mutiny Gold (MYG)	Doray Minerals (DRM)	37	38	Western Australia	73	135
Apr-15	Tanamai (CTP)	Northern Star (NST)	72	-	Northern Territory	27	-
Existing mines							
Aug-13	Barrick (Yilgarn South)	Gold Fields (GFI:US)	330	-	Western Australia	75	127
Sep-13	Alacer (Australian Business)	Metals X (MLX)	40	-	Western Australia	6	27
Dec-13	Plutonic (Barrick Gold)	Northern Star (NST)	25	-	Western Australia	14	121
Jan-14	Barrick (Kanowna)	Northern Star (NST)	75	-	Western Australia	49	121
May-14	Jundee (Newmont)	Northern Star (NST)	82.5	-	Western Australia	163	201
Apr-15	La Mancha (Frog’s Leg)	Evolution	299	-	Western Australia	157	529
Median (WA)						61	127

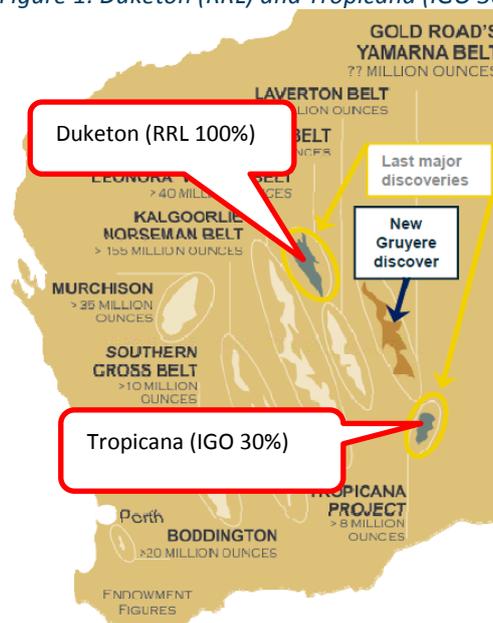
Source: Argonaut, Company report

...will ensure ongoing corporate appeal...

...both IGO and RRL could benefit from an acquisition...

Given the similar style of operation, an appetite for M&A and potential geographic synergies, the asset would suit a number of producers, including IGO and RRL.

Figure 1: Duketon (RRL) and Tropicana (IGO 30%) locations in relation to Gruyere



Source: GOR

...given similar style of operation, an appetite for M&A and potential geographic synergies

Based on Argonaut's scenario analysis...

Potentially accretive for IGO and RRL

Argonaut provides scenario analysis (see Table below) based on IGO or RRL acquiring Gruyere to develop the project on a 100% basis. Argonaut is assuming:

- An acquisition cost of A\$360m (~60c per share, or ~40% premium)
- A capex of A\$500m for IGO and \$350m for RRL given the Company's track record
- For IGO, we have deduced ~A\$392m from its FF EV for the base metal operations
- Reserves have been depleted for FY15 production

Table 3: Gruyere scenarios with IGO and RRL

Potential Gruyere scenarios with IGO and RRL (Argonaut estimate)				
Independence Group (IGO)		Tropicana Only	Gruyere	With Gruyere
Reserve#	Moz	0.9	3.1	4.0
Production	koz pa	149	274	423
FF EV*	A\$m	839	838	1677
FF EV / Reserve #	A\$/oz	913	271	419
FF EV / Production	A\$/oz	5632	3063	3969

...a potential acquisition of GOR at ~40% premium...

Regis (RRL)		Duketon Only	Gruyere	With Gruyere
Reserve#	Moz	2.2	3.1	5.3
Production	koz pa	307	274	581
FF EV**	A\$m	623	688	1311
FF EV / Reserve #	A\$/oz	284	223	248
FF EV / Production	A\$/oz	2028	2515	2258

...appears accretive to both IGO and RRL on most metrics...

* IGO - deducted A\$145m attributed to base metal operations

**RRL - assuming a capex of A\$350m for 7.5Mtpa plant

GOR Reserve based on Argonaut's estimate

Source: Argonaut, Gruyere parameters based on Argonaut assumption

Under these scenarios, a potential acquisition at ~60c per share appears accretive on most fronts. Given relative share price strengths, potential deals could feature a significant scrip component. These scenarios do not reflect potential discoveries made in the Yamarna Belt.

...accretive on EV / Reserve and EV / production for IGO

IGO

A potential acquisition of Gruyere, based on our assumptions, significantly boosts its production profile and is accretive in terms of EV / production and EV / Reserve. The timeline for Gruyere development (CY18 commissioning) would coincide with IGO's two maturing base metal operations' completion, assuming no significant extensions. This would enable IGO to continue its status as a multi-mine, mid-tier producer with high margins.

...could replace McPhillamy's for RRL

RRL

Regis' operation at Duketon is also maturing with diminishing Reserves and grade from Moolart Well. The Company's growth asset, McPhillamy's, is seen as challenging on a number of fronts (e.g. water, community relations issues). An acquisition, based on our assumptions, will extend RRL's mine life, significantly boost its production profile and is accretive on EV / Reserve. The Company may have the benefit of cheaper capex given demonstrated management expertise (Argonaut assuming ~A\$350m for a 7.5Mtpa plant).

The inventory, from a single pit, already exceeds the average attributable Reserve...

...of ASX gold producers (ex-NCM)

...anticipated to further expand from drilling at Gruyere and regional exploration

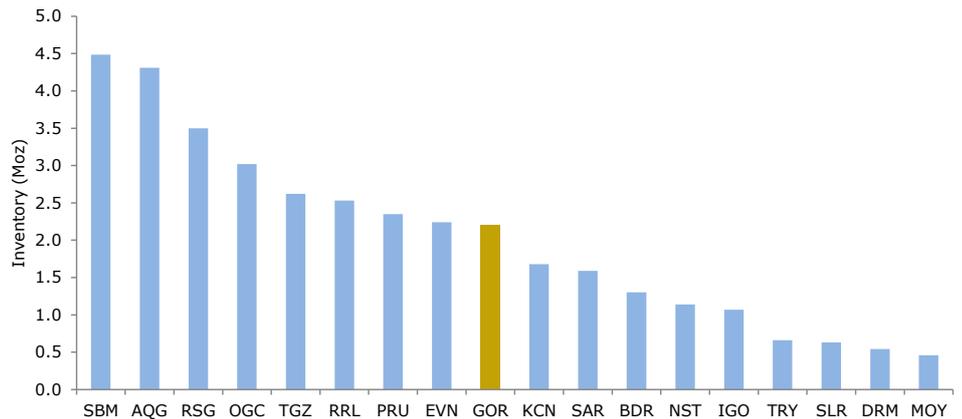
The project benchmarks well against peers...

...given scale, geometry, continuity and favourable metallurgy

Benchmarking the project (based on Scoping numbers)

Based on the Scoping Study parameters, the in-pit Resource of 2.2Moz puts GOR in an enviable position. This figure, predominantly consisting of ore sourced from a single pit (Gruyere), has already exceeded the average attributable Reserve of established ASX gold producers (see list below).

Figure 2: Gruyere in-pit Resource vs ASX gold producer group Reserves



Source: Argonaut, Company report

This position is anticipated to improve further with:

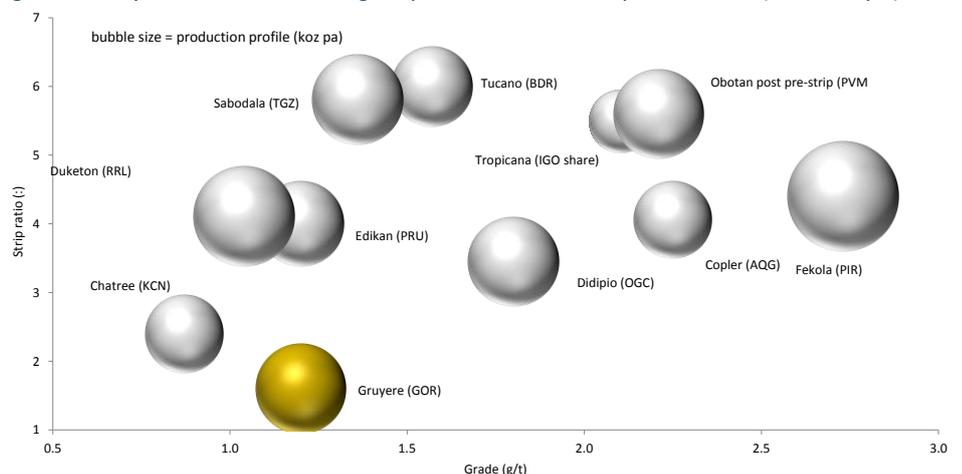
- Additional drilling at Gruyere
- Discoveries from regional prospects

Lowest strip

Gruyere (based on Scoping Study parameters) benchmarks favourably against peer ASX producing and development assets:

- Lowest strip ratio at 1.6:1 vs peer average of 4.3:1.0
- Long life of 11 years v peer average of 8
- Average production of 190koz pa v peer average of 189koz pa

Figure 3: Gruyere vs selected ASX gold production / development asset (>150koz pa)



Source: Argonaut, Company report

The upcoming Resource update and PFS should further enhance project economics.

Uncovering Yamarna

GOR is well cashed up with a plethora of targets to test...

Regional exploration pipeline

With an A\$19m cash balance at 31st March, the stock is cashed-up and newsflow rich with a high intensity exploration program underway. Targets to be tested in CY15 include (in addition to near mine targets at Gruyere):

- South Dorothy Hills (#1, Figure 4)
 - Covers ~20km strike, extension of the Gruyere trend (Monteith Trend)
 - 20km aircore program to commence in June CY15
- Trend north of Gruyere
 - To be tested in CY16
- Pacific Dunes – Corkwood (#3, Figure 4)
 - An in-fill program to follow up six coherent anomalies
 - Likely to be in H2 CY15
- South Yamarna JV targets, ongoing
 - Minnie Hill South (#2, Figure 4)
 - Rivera – Smokebush (#5, Figure 4)

...including South Dorothy Hills, Pacific Dunes – Corkwood, South Yamarna JV

Given the endowment of better explored greenstone belts in Western Australia and the Company's dominant >5,000km² landholding, GOR's strategy to concentrate on regional exploration is likely to pay further dividends. Sizable shallow discoveries are possible by following first principles and employing conventional exploration techniques, evident from the discovery of the Gruyere deposit.

Given dominant landholding and prospective geology...

Figure 4: GOR regional targets



Source: GOR

...GOR's regional exploration program is likely to pay further dividends

RESEARCH:

Ian Christie | Director, Industrial Research
+61 8 9224 6872 ichristie@argonaut.com

Philipp Kin | Analyst, Oil & Gas Research
+61 8 9224 6864 pkin@argonaut.com

Patrick Chang | Analyst, Metals & Mining Research
+61 8 9224 6835 pchang@argonaut.com

Matthew Keane | Analyst, Metals & Mining Research
+61 8 9224 6869 mkeane@argonaut.com

Helen Lau | Analyst, Metals & Mining Research
+852 3557 4804 hluu@argonaut.com

INSTITUTIONAL SALES - PERTH:

Chris Wippl | Executive Director, Head of Sales & Research
+61 8 9224 6875 cwippl@argonaut.com

John Santul | Consultant, Sales & Research
+61 8 9224 6859 jsantul@argonaut.com

Damian Rooney | Senior Institutional Dealer
+61 8 9224 6862 drooney@argonaut.com

Ben Willoughby | Institutional Dealer
+61 8 9224 6876 bwiloughby@argonaut.com

INSTITUTIONAL SALES – HONG KONG:

Travis Smithson | Managing Director - Asia
+852 9832 0852 tsmithson@argonaut.com

Glen Gordon | Institutional Research Sales
+852 3557 4874 ggordon@argonaut.com

CORPORATE AND PRIVATE CLIENT SALES:

Glen Colgan | Executive Director, Desk Manager
+61 8 9224 6874 gcolgan@argonaut.com

Kevin Johnson | Executive Director, Corporate Stockbroking
+61 8 9224 6880 kjohnson@argonaut.com

James McGlew | Executive Director, Corporate Stockbroking
+61 8 9224 6866 jmcglew@argonaut.com

Geoff Barnesby-Johnson | Senior Dealer, Corporate Stockbroking
+61 8 9224 6854 bj@argonaut.com

Rob Healy | Dealer, Private Clients
+61 8 9224 6873, rhealy@argonaut.com

Cameron Prunster | Dealer, Private Clients
+61 8 9224 6853 cprunster@argonaut.com

James Massey | Dealer, Private Clients
+61 8 9224 6849 jmassey@argonaut.com

Important Disclosure

Argonaut acted as Sole Lead Manager & Exclusive Bookrunner to the Placement that raised \$23.2M in September 2014 and received fees commensurate with this service. Argonaut currently owns and/or controls 150,000 GOR Shares.

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